



ADVISOR CHANNELS

LPL Moves to Protect Future Trail Commissions on Variable Annuities

In the wake of Ohio National's move to retreat from the annuities business, cutting trailing compensation to brokers, LPL Financial has signed contracts with 15 other VA providers to ensure commissions and contracts are protected going forward.

Diana Britton | Jan 24, 2019

LPL Financial is taking steps to make sure its reps don't get hurt by another insurance carrier cutting trail commissions on variable annuities, a step recently taken by Ohio National Life Insurance Company. The independent broker/dealer sent a memo to its more than 16,000 advisors, saying the firm has signed contracts with its 15 other variable annuity partners to continue to compensate them on sales of those annuities.

"To ensure your trail commissions are contractually protected, we recently partnered with our variable annuity carriers to reaffirm their commitment to compensating you," said Rob Pettman, executive vice president of products and platforms at LPL, in the memo. "Your confidence in these carriers is important to us so you can maintain your focus on doing what you do best, which is taking care of your clients."

In September, Ohio National notified broker/dealers that it was terminating selling agreements as of Dec. 12 and ceasing payments of trail commissions on annuity contracts with guaranteed minimum income benefit riders. An Oct. 29 email from Ohio National said the company will offer clients a buyout of their variable annuity contract with GMIBs from Nov. 12, 2018 to Feb. 11, 2019.

"We felt like we had to do something like this in order to protect advisors and investors from this happening again," Pettman said. "Even talking to advisors, there's an incredible amount of nervousness that what [Ohio

National] did is precedent-setting, so we felt this was really important to help ease their mindset about the business they have and the future business that they may do.”

Pettman expects other broker/dealers may follow suit, but LPL’s size and scale played a significant role in negotiating the contracts.

“We have the size and scale, so we actually have the capability to do it. So if you have that, you have to use it and take a leadership position.”

“LPL is influential,” said Kashif A. Ahmed, founder and president of American Private Wealth, affiliated with LPL. “You’re able to go to a vendor and say, ‘Listen, play nice with us or we’re going to cut you off and you’re not going to have 16,000 potential customers.’”

He believes the move was also a way for LPL to solidify its own revenue, as the firm gets a cut of advisors’ revenue trails.

Over the last several months, there has been a string of legal actions filed against the insurer by both broker/dealers and advisors. Earlier this month, Jackson, Miss.-based LPL broker Chris Noone filed suit against Ohio National, claiming breach of contract, unjust enrichment, tortious interference with business relations, promissory estoppel and declaratory relief. Last month, UBS sued over the lost commissions in a New Jersey district court; Cetera Financial Group filed FINRA arbitration claims in late November; Veritas Independent Partners filed a suit in Ohio Southern District Court; another LPL broker, Lance Browning, also filed a class action suit in that court; and Commonwealth Financial Network is suing the company in a Massachusetts district court.

“We’re watching Ohio National’s actions and depending upon future circumstances and their decisions, we’re open to a different course, but right now we’re not pursuing legal action,” Pettman said.

While these contracts address variable annuities, the IBD will also be addressing other annuity categories with trails, such as fixed and indexed annuities, at a later point in time.

In early September, Ohio National announced plans to exit the annuities and retirement plan business and focus solely on its life and disability income insurance lines. Other insurers have taken similar steps. In August 2017, Metlife completed the spin-off of its life insurance and annuities businesses, creating Bighthouse Financial, a separate entity. In December 2017, The Hartford completed its exit from the annuity business in a deal with multiple investors.

“I don’t think anybody wants to poke a sleeping gorilla like LPL,” Ahmed said.

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